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C O N F I D E N T I A L SECTION 01 OF 03 SANAA 002957

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TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [KMCA](#) [KMPI](#) [YM](#) [DOMESTIC](#) [POLITICS](#)

SUBJECT: RECORD OIL REVENUES FOR YEMEN -- WHERE HAS THE MONEY GONE?

REF: A. SANAA 1976

[B](#). SANAA 1919

[C](#). SANAA 2920

[D](#). SANAA 2844

[E](#). SANAA 1446

Classified By: A/DCM Thomas Burke for reasons 1.4 (b) and (d).

[1](#). (C) Summary. In September, the Ministry of Finance (MOF) submitted a record supplementary budget to Parliament for approval, totaling 50 percent of the original 2005 budget. As a result of higher than expected oil revenues and the lifting of fuel subsidies, Yemen is showing a revenue surplus of approximately 400 billion Yemeni Riyals (USD 2.07 billion). The budget provoked outrage in Parliament, where MPs accused the ROYG of spending the money illegally and wasting Yemen's windfall through corruption and mismanagement. It also appears that Government expenditures have exceeded surplus revenue, creating a fiscal crisis instead of an opportunity for investment. The crisis highlights the growing influence of Parliament in budgetary oversight and the dire need for financial accountability at the MOF. End summary.

Record Oil Prices Lead to Record Spending

[2](#). (SBU) In September 2005, the Ministry of Finance submitted to Parliament a record supplementary budget of 451 billion Yemeni Riyals (YR) -- 50 percent of the original 2005 budget. (Note: The exchange rate as of October 10 was USD 1 to YR [193](#). End note.)

This is the sixth consecutive year that the ROYG has requested supplementary spending. The original 2005 budget conservatively estimated oil revenues at USD 30 per barrel, but with the world market averaging double that price the ROYG is showing a surplus of YR 400 billion. This still leaves a gap of YR 51 billion, which MOF claims it is filling with additional tax and customs revenues, as well as some spending cuts.

[3](#). (SBU) The bulk of supplementary spending is proposed for fuel subsidies, at YR 237 billion, which were reduced but not completely eliminated in July. This is in addition to YR 44 billion already set aside for subsidies in the annual budget. Additional military expenditures cover increased shipping and operations costs created by higher fuel prices. Over YR 87 billion is allocated for capital expenditures, with the largest percentage being applied to the Public Works Program to complete road construction projects. Of note is YR 3.82 billion, set aside to reimburse the Crest company for its share in the Block 53 oil production agreement, cancelled by Parliament amidst charges of corruption. (Note: Crest, a UAE-based company with strong ties to ROYG officials, was a proposed partner in the Hunt Oil extension agreement in Block 18, also blocked by Parliament. End note.)

[4](#). (C) The budget allocates YR 32 billion for the first phase of the new wages strategy, which proposes to increase salaries for government employees eightfold over an unspecified period. The ROYG and Parliament have yet to agree on a minimum wage or an overall wage scale, and delays have led to growing frustration among civil servants. Public pressure is forcing the ROYG to increase salaries as a quid pro quo for lifting fuel subsidies in July. (Ref A) In September, for example, over 200 military personnel protested in Sanaa for higher wages without a permit, and were quickly whisked away by military police. Without a commitment to civil service reform, however, including incentive-based pay and removal of "ghost workers," the strategy promises to inflate ROYG expenditures for many years to come.

Some Question ROYG's Budget Priorities

[5](#). (C) According to Saadaldin Taleb, a former MP and current advisor to the National Democratic Institute, a majority of parliamentarians appeared ready to reject the supplementary budget without sending it to committee. In their view, the budget is in violation of the Constitution and the Financial Law, which stipulate that in the case of a surplus, each government body must apply to MOF for a spending increase, which must be approved by Parliament. Such procedures were

ignored in this case, and according to Parliament, the ROYG already committed the money without approval. Islahi MP Abdul Rahman Bafadel said Parliament was further outraged by what it calculates to be a fifty percent reduction in the investment budget. Taleb concurred, pointing to reductions in health and education spending, despite increases in expenditures on the military and road construction.

16. (C) MOF admits to spending surplus funds without approval, saying that Yemen's development needs require immediate action. Dr. Fadl al-Shoaiby, Deputy MOF for the Budget Sector, said the ROYG had to spend the money quickly before it was devalued by inflation. Shoaiby also contended that Parliament forced as much as seventy percent of the spending by opposing further reduction in fuel subsidies, demanding extensive wage increases, and obstructing implementation of a general sales tax. (Ref B) Ibrahim al-Nahari, MOF Director of External Relations, disputed the accusation that the ROYG cut the investment budget. According to Nahari, the Cabinet simply halted new projects until those currently under construction are completed. In fact, said Nahari, the supplemental budget adds YR 112 billion to overall development spending (much of it for electricity).

17. (C) Bafadal ridiculed this claim, saying the ROYG "refuses to allocate the full investment budget and then calls it savings." He continued his attack saying that MOF intentionally underestimates the price of oil, in order to give the appearance of fiscal restraint when examined by the IMF. MOF then uses supplementary budgets to cover expenditures they don't want the public to see. Dr. Mohamed al-Mansoob, Assistant Deputy Minister of Finance, confirmed many of these accusations, admitting to Econoff that there are a number of hidden costs that indicate a lack of spending discipline. These include an estimated YR 70 billion spent on the May Unification Day celebration in Mokhallah. Another YR 70 billion is dedicated to military spending, said Mansoob, without oversight or audit.

Budget Provokes Parliamentary Crisis...

18. (C) Sheikh Abdullah al-Ahmar, Speaker of Parliament, defended the supplementary budget in the legislature and demanded that it be passed immediately, without discussion. The members responded with outrage, with one MP screaming at the Speaker from the floor, "You are a tyrant!" Al-Ahmar eventually retracted his position, allowing for debate on the budget and opening the door for serious dissent. Bafadel and others argued that any extra oil income should be put in a special account, to be accessed only with explicit Parliamentary consent.

19. (C) Prime Minister Bajammal, recognizing a possible crisis in the works, called a meeting with the GPC members in Parliament. According to Taleb, Bajammal and GPC MPs cut a deal in a private session. The PM agreed to Parliament's demands to question a number of ministers on issues of corruption and in return, the budget would be sent to the Finance Committee. (Ref C) Committee Chairman Ali Ahmed al-Imrani, known as an honest GPC parliamentarian and a reformer, suddenly found himself in an impossible position. By recommending the budget for approval, Imrani could appease the ROYG and remain loyal to his party, while provoking the ire of reform-minded parliamentarians. Alternatively, he could oppose the budget, making him a hero to Parliament while bringing the full wrath of the ROYG down on himself.

...Becomes Third Rail for MPs

10. (C) By his own admission, Imrani then did the only reasonable thing: he fled to his village in Abyan claiming his mother was ill. The Chairman did not return to Sanaa until after Parliament went to recess, leaving the supplementary budget in limbo. Imrani is resentful that the ROYG does not respect Parliament's role in the budgeting process, dumping the supplementary budget on the Committee at the end of the fiscal year. When Parliament returns, it will also have to consider the proposed 2006 budget and the final spending statement from 2004. Imrani pleaded with post to provide the Finance Committee with the training and technical assistance necessary to analyze and evaluate Yemen's budgets.

11. (C) Imrani expressed his hope that Parliament would be able to compromise by approving only part of the budget, but admitted that this tested the previous limits of Parliamentary power. In the case of the annual budget, Parliament is not permitted to amend the budget -- only to recommend changes. It is not clear at this time if MPs have broader powers over a supplementary budget. Without such a compromise, however, Imrani fears that the budget will face rejection on the floor. "There are too many signs of corruption in this budget," lamented Imrani, adding: "I will

resign as Chairman as soon as possible."

Comment: "A Program of Corruption"

112. (C) The supplementary budget offers clear indications of runaway spending at MOF. Despite higher than expected oil revenues, the ROYG is still running in the red. Minister Salami has been applying pressure on all Government ministries and agencies to contribute to the treasury. This has resulted in poor decisions on a recent telecommunications tender and near panic at the Customs Authority, where officials are attempting to enforce new import fees on automobiles. (Ref D) Nahari admitted that even with the supplementary budget, the ROYG will only manage to maintain last year's deficit level of 1.5 percent. The GPC-controlled Parliament is likely to approve the budget at the end of the day, but the sheer size of the request has provoked incredulity among MPs. "This is a program of corruption, not reform," said one parliamentarian.

113. (C) The core issue is lack of accountability in the budgeting process. Efforts by the World Bank to install budgeting software (AFMIS) at MOF and other agencies have run into delays and corruption -- the program is led by Minister Salami's nephew. The Central Organization for Control and Audit, Yemen's monitoring body for corruption, is flawed in that it reports to the President's office and has no authority over military spending. Recognizing systemic problems at MOF, post is participating in a donor working group on public finance management reform, with the aim of rationalizing the budgeting process and opening it to public scrutiny. (Ref E) As part of this effort, strengthening parliamentary oversight of Government finance would help create a check on corruption and allow for broader input into the ROYG's investment priorities.
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